

State Office of Administrative Hearings



Cathleen Parsley
Chief Administrative Law Judge

July 17, 2008

TEXAS
COMMISSION
ON ENVIRONMENTAL
QUALITY
2008 JUL 17 PM 3:27
CHIEF CLERKS OFFICE

Les Trobman
General Counsel
Texas Commission on Environmental Quality
PO Box 13087
Austin Texas 78711-3087

VIA Hand-Delivery

Re: SOAH Docket Nos. 582-05-2770 and 582-05-2771; TCEQ Docket Nos. 2004-1120-UCR and 2004-1671-UCR; In Re: Application by Aqua Development Company and Aqua Utilities, Inc. d/b/a Aqua Texas, Inc. to Change Water and Sewer Tariffs and Rates in Various Counties

Dear Mr. Trobman:

The above-referenced matter will be considered by the Texas Commission on Environmental Quality on August 6, 2008. Pursuant to the Commission's directions at the last open meeting regarding this matter, we have prepared a final order for the Commission's consideration. This final order addresses all matters necessary for the full and final resolution of this case. Moreover, in this letter, we discuss the final rates and surcharges recommended by us.

First, the ED and Aqua Texas agreed upon the revenue requirement and rate structures. So, we do not discuss those in detail in this letter, other than to note that we recommend using active connections for rate-setting purposes. However, the parties do disagree on various surcharge issues. Ultimately, we recommend that the existing rates continue in effect until December 31, 2008, and that the rates established in this proceeding go into effect beginning January 1, 2009. Based upon that, we conclude that the deferred expense amount that should be allowed to be recovered by Aqua Texas is \$10,946,000. Using a two-year recovery period and a total number of active connections of 45,871 across all regions, we recommend a monthly surcharge of \$9.94 per connection over a period of 24 months to recover deferred expenses. This calculation includes no interest on the deferred expenses.

Aqua Texas argues that it should be entitled to interest on the deferred expenses for two reasons: (1) it actually incurred those expenses previously and, by foregoing higher rates to customers initially, it has incurred "carrying charges" (i.e., interest itself) for those expenses; and (2) the Commission has allowed for interest on surcharges in prior cases. Factually, Aqua Texas is correct that it has borne carrying costs for those expenses, so it is reasonable to allow them to recoup their cost of debt on those expenses. At the same time, it was a business risk that Aqua Texas took to defer the expenses and, if the Commission had agreed to allow the expenses to be included in rate base as Aqua Texas had requested, then there was the potential for a windfall to the company.

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Ultimately, this is a purely legal question for the Commission to decide. If the Commission desires to allow interest on the deferred expenses, at the cost of debt to Aqua Texas, then the interest rate applied would be 4.87% and the total of deferred expenses would be 13,775,698. Using this amount, the monthly surcharge would become \$12.52 per connection (instead of \$9.94, without interest).

As for rate case expenses, we conclude that total rate case expenses to be recovered are \$2,739,996.41. Again, using a two-year recovery period and a total number of active connections of 45,871 across all regions, we recommend a monthly surcharge of \$2.49 per connection over a period of 24 months to recover rate case expenses. The revised number for rate case expenses includes all attorney's fees, consultant fees, and expenses through June 18, 2008. The ALJs have adopted the ED's disallowance of \$9,471.50 for attorney and consultant's fees unrelated to this case, and also \$165,009.35 for fees associated with work performed by Richard Hugus. Mr. Hugus became involved in this case as an executive of Aqua Texas at the time this proceeding began. However, he retired in 2006, but continued to work on the case as a consultant. Aqua Texas submitted an affidavit to this effect, stating that Mr. Hugus's work has not been duplicated by any other salary or overhead of Aqua America. However, the affidavit does not establish the reasonableness and necessity of Mr. Hugus continuing work on this case after his retirement. Certainly, it may be reasonable to infer that he was a crucial consultant given his knowledge and involvement in this case. At the same time, his participation as a consultant obviated the need for the executive replacing him to be educated on the case and to devote time and energy to the case. Thus, there were some cost savings to Aqua Texas, which have not been explored.

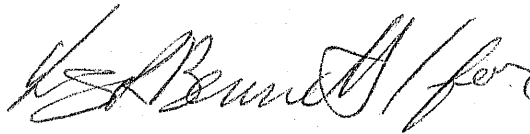
Without more detailed evidence addressing these issues, the ALJs are inclined to disallow the consulting fees for Mr. Hugus's work. If the Commission disagrees and wishes to allow recovery for his fees, then the total rate case expenses would be \$2,905,005.76, and the monthly surcharge would be \$2.64 per connection over a period of 24 months to recover rate case expenses.

We will appear at the Commission's agenda and be prepared to answer any questions you may have at that time.

Sincerely,



Craig R. Bennett
Administrative Law Judge



Travis L. Vickery
Administrative Law Judge

CRB/lis
Enclosures
xc: Mailing List

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AGENCY: TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
(TCEQ)

STYLE/CASE: APPLICATION OF AQUA UTILITIES, INC. D/B/A AQUA TEXAS,
INC. TO CHANGE WATER AND SEWER TARIFFS AND RATES
IN VARIOUS COUNTIES

SOAH DOCKET NUMBER:582-05-2770, 582-05-2771

TCEQ DOCKET NUMBER: 2004-1120-UCR, 2004-1671-UCR

**STATE OFFICE OF ADMINISTRATIVE
HEARINGS**

**CRAIG R. BENNETT
TRAVIS VICKERY
ADMINISTRATIVE LAW JUDGES**

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INDIVIDUAL CUSTOMERS)**

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TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



AN ORDER Approving the Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc. to Change Water and Sewer Rates; TCEQ Docket Nos. 2004-1671-UCR and 2004-1120-UCR; SOAH Docket Nos. 582-05-2770 and 582-05-2771.

On March 19, June 18, and August 6, 2008, the Texas Commission on Environmental Quality (Commission) considered the application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., for water and sewer rate/tariff changes and for recovery of rate case expenses through imposition of a surcharge on water and sewer customers. Administrative Law Judges (ALJs) Craig R. Bennett and Travis Vickery of the State Office of Administrative Hearings (SOAH) presented a Proposal for Decision (PFD) recommending that the Commission approve the requested rate changes, with modifications. After considering the PFD, the Commission adopts the following Findings of Fact and Conclusions of Law:

FINDINGS OF FACT

General and Procedural Findings

1. Aqua Utilities, Inc. (Aqua Utilities), and Aqua Development, Inc. (Aqua Development), hold Water and Sewer Certificates of Convenience and Necessity (CCN) Nos. 11157, 12902, 20453, and 20867.

2. Aqua Utilities and Aqua Development both do business in Texas as Aqua Texas, Inc. (Collectively, Aqua Utilities and Aqua Development are referred to simply as "Aqua Texas").
3. Aqua Texas is wholly owned by Aqua America, Inc. (Aqua America); Aqua America previously went by the name of Philadelphia Suburban Corporation (PSC).
4. PSC acquired 100% of the stock of AquaSource Utility, Inc. and AquaSource Development Company in a transaction approved by the Commission on December 6, 2002, and completed on September 10, 2003.
5. AquaSource Utility, Inc., is now Aqua Utilities and AquaSource Development, Inc., is now Aqua Development.
6. On May 14, 2004, Aqua Texas submitted its Application to Change Water and Sewer Tariffs and Rates in Various Counties (Application) to the Commission, and simultaneously filed the Application with the various municipalities that exercise original jurisdiction over Aqua Texas' water and sewer rates within those municipalities.
7. Aqua Texas' proposed water and sewer rate/tariff changes included increased retail water and sewer rates and changes to miscellaneous non-rate fees and charges.
8. Aqua Texas timely and properly provided notice of the proposed rate changes to its ratepayers and affected persons.
9. On June 25, 2004, the Commission declared the Application administratively complete.
10. Under the Application, the proposed rate increases were effective in non-municipal service areas on July 13, 2004.

11. Within 60 days of the effective date of the proposed rate changes at least ten percent of Aqua Texas' non-municipal customers filed protests to the rate changes. In addition, several municipalities denied Aqua Texas' proposed rate changes.
12. The Commission referred Aqua Texas' Application and its appeals of rate-making actions of various municipalities (collectively, the Appeals) to the State Office of Administrative Hearings (SOAH) for a contested case hearing. Those proceedings were styled and numbered as follows:
 - a. TCEQ Docket No. 2004-1671-UCR/SOAH Docket No. 582-05-2771; Water Rate/Tariff Change Application of Aqua Texas, CCN Nos. 11527 & 12902 in various Counties, Texas; Application No. 34610-R; Sewer Rate/Tariff Change Application of Aqua Texas, CCN Nos. 20453 & 20867 in various Counties, Texas;
 - b. TCEQ Docket No. 2004-1120-UCR/SOAH Docket No. 582-05-2770; Appeal by Aqua Texas from the Ratemaking Actions of the City of Dayton and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34649-A;
 - c. TCEQ Docket No. 2005-0112-UCR/SOAH Docket No. 582-05-4184; Appeal by Aqua Texas from the Ratemaking Actions of the City of Houston and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34825-A;
 - d. TCEQ Docket No. 2005-0113-UCR/SOAH Docket No. 582-05-4181; Appeal by Aqua Texas from the Ratemaking Actions of the City of Woodcreek and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34824-A;
 - e. TCEQ Docket No. 2005-0114-UCR/SOAH Docket No. 582-05-4182; Appeal by Aqua Texas from the Ratemaking Actions of the City of Ingram and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34823-A; and
 - f. TCEQ Docket No. 2005-2122-UCR/SOAH Docket No. 582-05-3745; Appeal by Aqua Texas from the Ratemaking Actions of the Village of Wimberley and Motions for Immediate Interim Rate Relief and Consolidation, Application No. 34808-A.
13. Notice of the hearing in this docket was provided to all affected persons.

14. On March 1, 2005, a preliminary hearing convened in this docket, at which time the Application and Appeals set forth above were consolidated for all prehearing and hearing purposes. Further, the following parties were admitted and designated: Aqua Texas; the Executive Director (ED) of the Commission; the Office of Public Interest Counsel (OPIC); the City of Houston; the City of Woodcreek; the Village of Wimberley; the City of Ingram; Lake Palestine Associates LP; Eagles Bluff Community Association; Briarcreek Home Owners Association (HOA); Kendall Pointe HOA; Estates of Shady Hollow HOA; Cherokee Point Owners Association; Eagle Creek Ranch Owners Association; Barton Creek Lakeside Property Owners Association (POA); David Phillips; Lake Cliff POA; Travis Lakeside HOA; Gary Craig; Crighton Group; Southeast Region Homeowners Groups; Southwest Region Homeowners Groups; and numerous individual customers aligned with these groups.
15. On May 20, 2005, the ALJs submitted three certified questions to the Commission in this matter.
16. On September 1, 2005, the Commission entered an Order answering the certified questions as follows:
 - a. Certified Question No. 1: "Does Chapter 13 of the Water Code allow two or more utilities wholly owned by the same parent company to file a single rate filing application to consolidate multiple systems under a single tariff?" Answer: "Yes."
 - b. Certified Question No. 2: "Must a rate filing application initiating a change in rates and proposing to consolidate more than one system under a single tariff contain information showing the systems are substantially similar and the rate promotes water conservation?" Answer: "No."

- c. Certified Question No. 3: "May the rate filing application be rejected and the effective date of the rate be suspended as provided by 30 TEX. ADMIN. CODE §§ 291.8(a) and 291.26(a) if the applicant has failed to include information in its application necessary under TEX. WATER CODE § 13.145 to support a single tariff consolidating more than one system?" Answer: "Set aside" [because of determination of Question No. 2].
17. Prior to the hearing on the merits, Aqua Texas settled with numerous protestants and municipalities. The settling parties were dismissed from this docket and/or Aqua Texas dismissed its appeals of those municipalities' decisions. Those settlements and dismissals included the following:
- a. Aqua Texas settled its appeal of the ratemaking decision of the City of Houston in SOAH Docket No. 582-05-4184 and TCEQ Docket No. 2005-0112-UCR. That appeal was dismissed by the ALJs on January 18, 2006, and by the TCEQ on March 1, 2006.
 - b. Aqua Texas settled its appeal of the ratemaking decision of the Village of Wimberley in SOAH Docket No. 582-05-3745 and TCEQ Docket No. 2004-2122-UCR. That appeal was dismissed by the ALJs on October 31, 2005, and by the TCEQ on March 1, 2006.
 - c. Aqua Texas settled its appeal of the ratemaking decision of the City of Woodcreek in SOAH Docket No. 582-05-4184 and TCEQ Docket No. 2005-0113-UCR. That appeal was dismissed by the ALJs on October 31, 2005, and by the TCEQ on March 1, 2006.
 - d. Aqua Texas reached a settlement with its customers in the Pine Trails residential development in the Southeast Region, and those customers moved to withdraw their protest on February 20, 2006. The ALJs granted that request on March 3, 2006, and the settlement rates and terms were approved by the TCEQ on January 24, 2007.
 - e. Aqua Texas settled its appeal of the ratemaking decision of the City of Ingram in SOAH Docket No. 582-05-3745 and TCEQ Docket No. 2004-2122-UCR. On May 11, 2006, Aqua Texas and Ingram filed a Joint Motion for Approval of Settlement and for Severance of the Ingram Region. On May 24, Mr. Gary Craig, the sole party representing the Ingram environs, advised the Court he had no objection to the proposed settlement. The ALJs then severed the Ingram Region, remanded that portion of this matter to the TCEQ and dismissed the Ingram Appeal on June 7, 2006.

The TCEQ approved the Ingram region settlement and dismissed the Ingram appeal on January 24, 2007.

- f. Aqua Texas reached a settlement with Eagles Bluff Community Association and Lake Palestine Associates, L.P. in the North Region. Those protestants moved to withdraw their protests on May 26, 2006. The ALJs granted that motion on June 7, 2006.
18. On August 14, 2006, the hearing on the merits was convened and preliminary and procedural issues were addressed. At that time, Aqua Texas, the ED, OPIC, the Southeast and Southwest Region Homeowners Groups, Eagle Creek Ranch Owners Association, Barton Creek Lakeside POA, and Briarcreek Owners Association appeared and participated. All non-appearing parties were dismissed for failure to appear; further, the Briarcreek Owners Association was dismissed at its request based upon its settlement with Aqua Texas. After addressing procedural and prehearing matters, the hearing was recessed.
19. The hearing reconvened on August 21, 2006, and continued from day to day thereafter, until it was recessed again on August 28, 2006. Aqua Texas appeared through its attorneys, Paul Terrill, Howard Slobodin, Amanda Cagle, and Mark Zeppa. The ED appeared through staff attorneys Todd Galiga and Ross Henderson. OPIC appeared through staff attorney Scott Humphrey. The Southeast and Southwest Region Homeowners Groups appeared through their attorneys, Sheridan Gilkerson and Ed McCarthy. Eagle Creek Ranch Owners Association appeared through its representative, Linda Lamberth; and the Barton Creek Lakeside POA appeared through its representative, Byron Zinn.
20. The hearing on the merits was reconvened on September 27, 2006, but was recessed so the parties could engage in mediation.

21. The hearing on the merits reconvened on February 16 and 19, 2007, for purposes of taking evidence related to rate case expenses. Aqua Texas appeared through its attorneys, Paul Terrill and Amanda Cagle. The ED appeared through staff attorneys Todd Galiga and Ross Henderson. OPIC appeared through staff attorney Scott Humphrey. The Southeast and Southwest Region Homeowners Groups appeared through their attorneys, Sheridan Gilkerson and Ed McCarthy. The Eagle Creek Ranch Owners Association appeared through its representative, Linda Lamberth.
22. The record closed on May 18, 2007, after the parties submitted written closing arguments and proposed rate-setting data.

Rate Case Data Findings

23. Aqua Texas provides water service to more than 100,000 customers and wastewater service to more than 38,000 customers in Texas, through 335 water and wastewater systems.
24. Aqua Texas has a total of 45,871 active connections among its water and wastewater service for the regions at issue in this proceeding.
25. Aqua Texas acquired the AquaSource companies in the middle of 2003.
26. The AquaSource companies used different utility accounting procedures than Aqua America.
27. If Aqua Texas had attempted to use the AquaSource companies' data for purposes of the test year data for this rate change application, it would have had to spend a significant amount of resources to organize the data in a consistent manner and to go through all of AquaSource's expenses, item by item, and show which expenses would be different going forward under

ownership by Aqua Texas; this would have been a significant burden and would have likely resulted in unreliable calculations.

28. In submitting its rate change application, it was reasonable for Aqua Texas to use the partial test year data it kept along with budgeted data for 2004 to replace the AquaSource test year data.
29. Budgeted costs were \$2.3 million less than AquaSource's actual costs during the test year, and revenues increased by \$1.8 million using the budgeted figures.
30. Aqua Texas' budgeted figures were very accurate; Aqua Texas' actual 2004 expenses were within 0.1% of its test year budgeted figures, indicating that the budgeted figures were a reliable forecast of anticipated expenses.
31. Aqua Texas utilizes National Association of Regulatory Utility Commissioners (NARUC) utility accounting for its systems.
32. Aqua Texas reformatted its data and provided it to the ED in a manner that complies with the TCEQ's proprietary system for evaluating utility expenses.
33. Aqua Texas has not presented its cost of service data by system, but rather by region.
34. The ED's technical staff has reviewed the actual documentation to support the rate change calculations and found the identified expenses to be well-supported by receipts and other acceptable documentation.
35. Because the Commission had previously issued an order allowing regional rates to be charged, it was reasonable for Aqua Texas to calculate cost of service on a regional basis, rather than on a system basis, and to present its data in that format.
36. Aqua Texas' rate case data adequately supports its application to change rates.

Consolidated Tariffs/Regionalization

37. On June 13, 2000, AquaSource Utility, Inc. filed an application for a single statewide tariff with the Texas Natural Resource Conservation Commission.
38. On September 1, 2001, TEX. WATER CODE § 13.145 became effective.
39. On September 17, 2002, the Commission issued an order in the AquaSource Utility, Inc., rate case establishing regions and approving regional tariffs (water and sewer) for each region.
40. Aqua Texas divides its service territory into four regions across the state: North, Southeast, Southwest, and Ingram. Those four operations regions correspond to the four tariff regions proposed in the Application. These are based on the same regions approved in the AquaSource rate case, except that the former Northeast and Northwest Regions have now been combined into the North Region.
41. The regional tariffs in the Application cover each separate region, broken down by water and sewer: North Water; North Sewer; Southeast Water; Southeast Sewer; Southwest Water; and Southwest Sewer.
42. The benefits of regional tariffs include:
 - a. reduced costs resulting from economies of scale;
 - b. lower administration and regulatory costs;
 - c. increased efficiency;
 - d. sharing of expenses between systems resulting in reduced waste;
 - e. prevention of dramatic cost/rate increases when repairs are needed because costs are shared over a larger number of customers; and

- f. revenue and expense stability.
- 43. Regional tariffs help to ensure system viability and compliance with applicable laws because the economies of scale, increased efficiency, and sharing of expenses across larger numbers of customers facilitates capital investment as needed in those systems.
 - 44. The regional water tariffs reflect regional differences in the depth of groundwater, system and regulatory requirements, and physical characteristics such as regional geology.
 - 45. Aqua Texas' water system facilities within each tariff region are substantially similar for reasons including, but not limited to, employees who operate strictly within a region, their sources of water, the components of each system, the types of piping, the design and construction of the systems, facilities, the types of systems, and the types of customer usage that they serve.
 - 46. Aqua Texas' water systems within each tariff region provide substantially similar quality of service, including, but not limited to the following:
 - a. all use state-approved technologies and facilities;
 - b. all provide service, or are being brought into compliance with a level of service, that achieves TCEQ and EPA drinking water standards; and
 - c. all provide water treatment, or are being brought into compliance with a level of service, that achieves TCEQ and EPA drinking water standards.
 - 47. Aqua Texas' water systems' costs of service are substantially similar within each tariff region for reasons including, but not limited to, the following:
 - a. all systems share operations and maintenance costs that are either identical or at least substantially similar on a per customer basis;
 - b. Costs within each region are affected by intra-regional similarities such as regional hydrology and geology and similar intra-regional regulatory requirements; and

- c. all systems' capital components are substantially similar, resulting in substantially similar repair and replacement costs over the life of those components on a per customer basis.
48. Aqua Texas' sewer system facilities within each tariff region are substantially similar for reasons including, but not limited to, the following:
- a. all utilize identical or at least substantially similar methods of treatment;
 - b. all utilize identical or at least substantial similar system components and piping; and,
 - c. all serve substantially similar types of customers.
49. Aqua Texas' sewer systems within each tariff region provide substantially similar quality of service, including, but not limited to the following:
- a. all use state-approved technologies and facilities;
 - b. all provide service, or are being brought into compliance with a level of service, that achieves TCEQ discharge standards; and
 - c. all provide sewage treatment, or are being brought into compliance with a level of treatment, that achieves TCEQ standards.
50. Aqua Texas' sewer systems' costs of service are substantially similar within each tariff region for reasons including, but not limited to the following:
- a. all systems share operations and maintenance costs that are either identical or at least substantially similar on a per customer basis;
 - b. Costs within each region are affected by intra-regional similarities such as regional geology and similar intra-regional regulatory requirements; and,
 - c. all systems' capital components are identical or at least substantially similar, resulting in substantially similar repair and replacement costs over the life of those components on a per customer basis.

51. Aqua Texas' water tariffs promote water conservation because zero gallons are included in the base rate, and they are structured in inclining block tiers with rates that increase for higher usage.

Cost of Service

52. Aqua Texas' proposed rates are based on a twelve month test year ending December 31, 2003, as adjusted for known and measurable changes based upon its budgeted expenses for 2004.
53. Aqua Texas had reasonable and necessary expenses, as reflected by the test year data and as adjusted for known and measurable changes, for each tariff region as set forth on attached Exhibits B-1 through B-6 (the Revenue Requirement Rate Sheets).
54. The expenses set forth in Exhibits B-1 through B-6 are reasonable and necessary to provide service to Aqua Texas' ratepayers.
- a. The expenses are based on Aqua Texas' test year expenses as adjusted for known and measurable changes.
 - b. The expenses are related to, and necessary for, the provision of water and sewer service.
 - c. The amount of the costs and expenses is reasonable.

Rate Base

55. In its application, Aqua Texas proposed a four-year phased-in rate increase as part of a seven year expense deferral/recovery plan.

56. Aqua Texas sought and received authorization from the ED to account for certain expenses consistent with Statement of Financial Accounting Standards No. 71 ("FAS No. 71"), entitled "Accounting for the Effects of Certain Types of Regulation," in regard to amounts it undercollected in the early years of its four year phase-in period, *i.e.* when the rates it charged were below rates based on a cost of service basis.
57. After obtaining approval from the ED, Aqua Texas implemented its phased rate increase and capitalized certain expenses as a regulatory asset in association with its phased-in rate increases.
58. Aqua Texas deferred expenses consistent with SFAS No 71, creating a commensurate regulatory asset.
59. The total amount of deferred expenses eligible for recovery beginning January 1, 2009, is \$10,946,000.
60. Aqua Texas included an average \$8,000,000 balance of its expense deferrals in rate base in its Application and assigned the overall rate of return of 8.44% to it.
61. Using phased-in rates and creating a regulatory asset creates the possibility for Aqua Texas to have an over-recovery.
62. By including a regulatory asset in rate base and phasing in its rates to recover the deferred expenses associated with the regulatory asset, Aqua Texas' proposed final phased rates are higher than what they would have been if simple, unphased rates were used. These higher rates are implemented after year two of the phase-in and continue indefinitely into the future.
63. It is not reasonable, nor necessary for Aqua Texas to include a deferred expense regulatory asset in rate base.

64. It is reasonable and necessary for Aqua Texas to recover \$10,946,000 in deferred expenses through a surcharge.
65. Aqua Texas' net adjusted test year rate base consists of the following elements: utility plant at original cost, less accumulated depreciation, less contributions in aid of construction, plus cash working capital.
66. Aqua Texas' total net adjusted test year rate base broken down by regional tariff is as follows:
- a. \$31,831,135 for North Region (Water)
 - b. \$24,013,695 for Southeast Region (Water)
 - c. \$22,798,957 for Southwest Region (Water)
 - d. \$1,883,757 for North Region (Wastewater)
 - e. \$19,580,236 for Southeast Region (Wastewater)
 - f. \$5,828,224 for Southwest Region (Wastewater)
67. The total net adjusted test year rate base figures set forth above do not include amounts for deferred expense regulatory assets.

Acquisition Adjustment

68. The Commission's order in the prior AquaSource rate case provided that an approximately \$7.4 million Acquisition Adjustment be addressed in a subsequent rate proceeding.
69. Due to the magnitude of the rate increase in this proceeding, Aqua Texas has proposed to exclude the Acquisition Adjustment from rates in this case, but requests that this amount be held in abeyance until Aqua Texas exercises its right to pursue recovery in a later rate case.

70. The Acquisition Adjustment was not addressed in this proceeding, and it is reasonable to allow Aqua Texas to carry forward the \$7.4 million Acquisition Adjustment from the previous rate case to the next rate case because doing so avoids two harms: rate shock to the customers and damage to the financial health of Aqua Texas.

Rate of Return

71. Aqua Texas has no debt, but its parent company, Aqua America, does. Aqua Texas benefits from Aqua America's debt financing.
72. It is reasonable to impute a 50/50 debt-equity structure to Aqua Texas based on Aqua America's debt financing.
73. A 12% return on equity is reasonable in light of Aqua Texas' risk and the capital-intensive nature of water and sewer utilities and is consistent with the returns available from other investments of similar risk.
74. Aqua Texas' imputed 4.87% cost of debt is based on Aqua America's cost of debt and is significantly lower than the cost of debt that a small utility could obtain. It also represents the lowest interest rate paid by Aqua America for its debt.
75. Aqua Texas' requested total rate of return of 8.44% based on an imputed 50/50 debt-equity structure and a 12% return on equity and a 4.87% cost of debt is reasonable in light of the risk inherent in the operation of water and sewer utilities and is consistent with the returns available from other investments of similar risk.
76. Aqua Texas' requested total rate of return of 8.44% is also reasonable in light of Aqua Texas' management.

Rate Case Expenses

77. As of June 18, 2008, Aqua Texas incurred reasonable and necessary rate case expenses in this matter in the amount of \$2,739,996.41 for preparation of the Application, including deriving the original plant and equipment costs, developing the proposed rate/tariff changes, filing fees, notice costs, and participation by experts and counsel in the contested case hearing.
78. Rate case expenses in this case were not a normal, recurring expense of operation.
79. It is reasonable and appropriate for Aqua Texas to recover its reasonable rate case expenses as a monthly surcharge.

CONCLUSIONS OF LAW

General and Procedural Conclusions

1. Aqua Texas is a public utility as defined in TEX. WATER CODE ANN. §13.002(23).
2. The Commission has jurisdiction to consider Aqua Texas' Application for a rate increase pursuant to TEX. WATER CODE §§ 13.181, 13.042, and 13.043.
3. The ALJs conducted a contested case hearing and issued a proposal for decision on Aqua Texas' proposed water and sewer rate/tariff changes under TEX. GOV'T CODE ch. 2003, TEX. WATER CODE ch. 13, and 30 TEX. ADMIN. CODE chs. 80 and 291.
4. Proper notice of the Application was given by Aqua Texas as required by TEX. WATER CODE §§ 13.187 and 13.043; 30 TEX. ADMIN. CODE §§ 291.22 and 291.28; and TEX. GOV'T CODE §§ 2001.051 and 2001.052.

Rate Case Data

5. The application, rate-filing information, and rate case data submitted by Aqua Texas in this case is adequate to support its rate change application and complies with the applicable statutes and rules.

Aqua Texas' Standing

6. TEX. WATER CODE § 13.302 establishes the application requirements for the purchase of stock in a public utility.
7. TEX. WATER CODE § 13.301 establishes the requirements for a sale, transfer, or merger (STM) of a utility.
8. For both STM and stock acquisition applications, the Commission may require that the applicant “demonstrate adequate financial, managerial, and technical capability for providing continuous and adequate service to the requested area and any areas currently certificated to the person.” TEX. WATER CODE §§ 13.301(b) and 13.302(b).
9. For both STM and stock acquisition applications, the Commission must determine whether the proposed transaction would serve the public interest and provide for a public hearing if it is necessary to make this determination. TEX. WATER CODE §§ 13.301(d)-(e) and 13.302(d) and (f).
10. A stock acquisition is not a “sale, acquisition, lease, or rental,” or a “merger or consolidation,” and, therefore, does not necessitate a STM application under TEX. WATER CODE § 13.301(a).

11. Because an application was filed under TEX. WATER CODE § 13.302 prior to the 2003 stock acquisition of the AquaSource companies by PSC, and the ED approved the transaction, no STM application was required under TEX. WATER CODE § 13.301.
12. Aqua Texas has standing to bring the application for rate changes at issue in this proceeding.

Consolidated Tariffs/Regionalization

13. Chapter 13 of the Water Code expresses a strong legislative preference for regionalization in the form of a mandate to the Commission to develop policies promoting the consolidation of systems under regional tariffs. TEX. WATER CODE §§ 13.182(d), 13.183(c), and 13.241(d).
14. Because Aqua Texas has applied for regional water and sewer tariffs, TEX. WATER CODE § 13.145 applies to Aqua Texas' Application.
15. The systems in each of Aqua Texas' seven regional tariffs are substantially similar in terms of facilities, quality of service, and cost of service within the meaning of TEX. WATER CODE § 13.145.
16. Aqua Texas' regional tariffs promote water conservation for single-family residences and landscape irrigation within the meaning of TEX. WATER CODE § 13.145.
17. Aqua Texas has satisfied the requirements of TEX. WATER CODE § 13.145.

Revenue Requirements

18. The invested capital amounts used to calculate cost of service and rates are based on the original cost of property used by and useful to Aqua Texas in providing service, less depreciation, in accordance with TEX. WATER CODE ANN. § 13.185.

19. The revenue requirements presented in the Application, after being adjusted for the modifications required by the above Findings of Fact and as ultimately shown in the attached **Exhibits B-1 through B-6**, are based on Aqua Texas' reasonable and necessary operating expenses, within the meaning of TEX. WATER CODE ANN. §§ 13.183 and 13.185.
20. The revenue requirements presented in the Application, as adjusted by the Commission in this proceeding and reflected in the attached **Exhibits B-1 through B-6**, are sufficient to provide Aqua Texas with a reasonable opportunity to earn a fair and equitable return on its invested capital while preserving its financial integrity, within the meaning of TEX. WATER CODE ANN. §§ 13.183 and 13.184.
21. The rates and fees to be charged by Aqua Texas, as approved by the Commission in this Order, are just; reasonable; not unreasonably preferential, prejudicial, or discriminatory; sufficient; equitable; and consistent in application to each class of customer in accordance with TEX. WATER CODE ANN. §§ 13.182, 13.189, and 13.190.

Termination of Purchased Water Pass-Through

22. With the approval of the application and the adoption of rates in this case, it is no longer appropriate for Aqua Texas to recover any purchased water expenses through a monthly pass-through amount (previously recovered in the amount of \$1.00 per customer, per month), except upon later Commission approval.

Deferred Expenses Regulatory Asset

23. Aqua Texas may recover its deferred expenses through a monthly surcharge in the amount of \$9.94 per connection for 24 months.

Rate Case Expenses

24. Rate case expenses in the amount of \$2,739,996.41 through June 18, 2008, were reasonable and necessary expenses within the meaning of TEX. WATER CODE §§ 13.043, 13.084, 13.183(a)(1) & 13.185(d) and (h), and 30 TEX. ADMIN. CODE § 291.31(b).
25. Aqua Texas may recover its rate case expenses through a monthly surcharge of \$2.49 per connection for 24 months. Recovery of rate case expenses through such a surcharge complies with 30 TEX. ADMIN. CODE § 291.21(k) for collection of revenues over and above the usual cost of service.
26. Rate case expenses are allocated among all of Aqua Texas' systems governed by this proceeding equally on a per-connection basis.

NOW, THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY THAT:

1. The Application of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., for water and sewer rate/tariff change are granted as modified by and to the extent set forth in the above Findings of Fact and Conclusions of Law.
2. The request of Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas, Inc., to apply a surcharge to recover rate case expenses in the amount of \$2,739,996.41, to be

recovered as a monthly surcharge in the amount of \$2.49 to each water and sewer connection for 24 months is approved.

3. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas are given approval to apply a surcharge to recover its deferred expenses in the amount of \$10,946,000 that was not allowed in rate base. This shall be recovered as a monthly surcharge in the amount of \$9.94 to each water and sewer connection for 24 months. The surcharge shall be discontinued at the end of 24 months or once the amount of \$10,946,000 is recovered, whichever occurs first.
4. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas are to discontinue the collection of any pass-through charges from customers for the recovery of purchased water expenses. No additional purchased water pass-through charges are permitted for the systems covered by this order, except through later Commission approval.
5. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas shall file a tariff reflecting the rates approved by the Commission within ten days of the date of this Order.
6. Aqua Utilities, Inc. and Aqua Development Company d/b/a Aqua Texas shall notify customers by mail of the final rate structure within 30 days of the date of this Order and shall include the statement required by 30 TEX. ADMIN. CODE § 291.28(5) along with the first bill to customers implementing the rates approved by this Order.
7. The effective date of this Order is the date the Order is final, as provided by TEX. GOV'T CODE ANN. §2001.144 and 30 TEX. ADMIN. CODE § 80.273. However, the rates and surcharges set by this order shall not go into effect until January 1, 2009.

8. All other motions, requests for entry of specific Findings of Fact or Conclusions of Law, and any other requests for general or specific relief not expressly granted herein, are hereby denied for want of merit.
9. The Chief Clerk of the Texas Commission on Environmental Quality shall forward a copy of this Order and tariff to the parties.
10. If any provision, sentence, clause, or phase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date:

TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

Buddy Garcia, Chairman

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34610-R UTILITY: Aqua Texas, Inc. (North Water)

based on ED-KA-23-North (Water)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,461,349	50	\$730,675	50	\$730,675
CONTRACT SERVICES	607,711	90	546,940	10	60,771
PURCHASED SERVICE	251,863	0	0	100	251,863
CHEMICALS AND TREATMENT	121,365	0	0	100	121,365
UTILITIES	828,722	0	0	100	828,722
REPAIRS AND MAINTENANCE	242,371	50	121,186	50	121,186
OFFICE EXPENSE	242,380	50	121,190	50	121,190
ACCOUNTING & LEGAL	96,845	100	96,845	0	0
INSURANCE	30,801	100	30,801	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	837,534	50	418,767	50	418,767
DEPRECIATION & AMORTIZATION	1,439,811	100	1,439,811	0	0
TAXES OTHER THAN INCOME	280,224	100	280,224	0	0
<hr/>					
SUB-TOTAL (LESS FIT & RETURN)	6,440,976		\$3,786,438		\$2,654,538
% OF TOTAL (FIXED + VARIABLE)		0.59		0.41	
FEDERAL INCOME TAXES	1,383,979		813,596		570,383
RETURN	2,686,548		1,579,333		1,107,215
LESS OTHER REVENUES	-212,751		-125,069		-87,682
<hr/>					
TOTAL	\$10,298,752		\$6,054,298		\$4,244,455

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$3.41 /TH.GAL.

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W

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$35.88 /MO.

\$35.88 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$3.27 /TH.GAL.
<hr/>	
	W
<hr/>	
YIELDS	\$36.89 /MO.
	36.89 /MO. incl. min. gallons
<hr/>	
ANNUAL REVENUE GENERATED:	\$10,298,752

REVENUE GENERATED SUMMARY:

Minimum Bill

Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	13616	36.89	\$36.89	\$502,337	\$6,028,043
1"	124	92.23	92.23	11,437	137,242
1-1/2"	5	184.47	184.47	922	11,068
2"	10	295.15	295.15	2,951	35,417
3"	2	553.40	553.40	1,107	13,282
4"		922.33	922.33	0	0
6"		1844.66	1844.66	0	0
8"		2951.45	2951.45	0	0

0

TOTAL MINIMUM CHARGES=>

\$6,225,052

GALLONAGE CHARGES=>

1,245,780

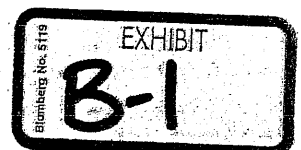
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\$3.27 /1,000 GAL

4,073,701

TOTAL REVENUE GENERATED=>

\$10,298,752



based on Exhibit: ED-KA-24-SE (Water)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,220,685	50	\$610,343	50	\$610,343
CONTRACT SERVICES	537,787	90	484,008	10	53,779
PURCHASED SERVICE	131,276	0	0	100	131,276
CHEMICALS AND TREATMENT	138,312	0	0	100	138,312
UTILITIES	533,070	0	0	100	533,070
REPAIRS AND MAINTENANCE	189,272	50	94,636	50	94,636
OFFICE EXPENSE	180,248	50	90,124	50	90,124
ACCOUNTING & LEGAL	96,619	100	96,619	0	0
INSURANCE	33,167	100	33,167	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	716,548	50	358,274	50	358,274
DEPRECIATION & AMORTIZATION	1,153,116	100	1,153,116	0	0
TAXES OTHER THAN INCOME	1,094,707	100	1,094,707	0	0
SUB-TOTAL (LESS FIT & RETURN)	6,024,807		\$4,014,994		\$2,009,813
% OF TOTAL (FIXED + VARIABLE)		0.67		0.33	
FEDERAL INCOME TAXES	1,044,086		695,790		348,296
RETURN	2,026,756		1,350,651		676,105
LESS OTHER REVENUES	-234,174		-156,056		-78,118
TOTAL	\$8,861,475		\$5,905,379		\$2,956,096

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$1.75 /TH.GAL.

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W/

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$31.62 /MO.

\$31.62 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$2.95 /TH.GAL.
	W/
YIELDS	\$20.84 /MO.
	20.84 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$8,861,475

REVENUE GENERATED SUMMARY:

Minimum Bill					
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	13038	20.84	\$20.84	\$271,774	\$3,261,289
1"	419	52.11	52.11	21,835	262,019
1-1/2"	42	104.22	104.22	4,377	52,529
2"	72	166.76	166.76	12,007	144,079
3"	14	312.67	312.67	4,377	52,529
4"	6	521.12	521.12	3,127	37,521
6"	5	1042.24	1042.24	5,211	62,534
8"	1	1667.58	1667.58	1,668	20,011

0

TOTAL MINIMUM CHARGES=>

\$3,892,510

GALLONAGE CHARGES=>

1,684,395

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\$2.95 /1,000 GAL

4,968,965

TOTAL REVENUE GENERATED=>

\$8,861,475



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET #

34610-R

UTILITY:

Aqua Texas, Inc. (SW Water)

REVENUE REQUIREMENT

based on Exhibit: ED-KA-25-SW (Water)

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$1,377,130	50	\$688,565	50	\$688,565
CONTRACT SERVICES	589,831	90	530,848	10	58,983
PURCHASED SERVICE	326,676	0	0	100	326,676
CHEMICALS AND TREATMENT	63,065	0	0	100	63,065
UTILITIES	423,436	0	0	100	423,436
REPAIRS AND MAINTENANCE	200,583	50	100,292	50	100,292
OFFICE EXPENSE	-31,066	50	-15,533	50	-15,533
ACCOUNTING & LEGAL	138,037	100	138,037	0	0
INSURANCE	215,684	100	215,684	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	991,911	50	495,956	50	495,956
DEPRECIATION & AMORTIZATION	975,053	100	975,053	0	0
TAXES OTHER THAN INCOME	397,249	100	397,249	0	0
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SUB-TOTAL (LESS FIT & RETURN)	5,667,589		\$3,526,150		\$2,141,439
% OF TOTAL (FIXED + VARIABLE)		0.62		0.38	
FEDERAL INCOME TAXES	991,271		616,730		374,541
RETURN	1,924,232		1,197,181		727,051
LESS OTHER REVENUES	-138,707		-86,298		-52,409
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TOTAL	\$8,444,385		\$5,253,762		\$3,190,622

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$2.97 /TH.GAL.

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MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$44.76 /MO.

\$44.76 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$3.61 /TH.GAL.
YIELDS	\$38.94 /MO.
	38.94 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	
\$8,444,385	

REVENUE GENERATED SUMMARY:

Minimum Bill

Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	8891	38.94	\$38.94	\$346,219	\$4,154,628
1"	163	97.35	97.35	15,868	190,418
1-1/2"	12	194.70	194.70	2,336	28,037
2"	19	311.52	311.52	5,919	71,027
3"	6	584.11	584.11	3,505	42,056
4"	2	973.51	973.51	1,947	23,364
6"	1	1947.02	1947.02	1,947	23,364
8"	1	3115.23	3115.23	3,115	37,383

0

TOTAL MINIMUM CHARGES=>

\$4,570,277

GALLONAGE CHARGES=>

1,073,160

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\$3.61 /1,000 GAL

3,874,108

TOTAL REVENUE GENERATED=>

\$8,444,385



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R

UTILITY:

Aqua Texas, Inc. (North Sewer)

based on Exhibit: ED-KA-26-North (Sewer)

REVENUE REQUIREMENT COST OF SERVICE ITEM

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$87,511	50	\$43,756	50	\$43,756
CONTRACT SERVICES	28,102	90	25,292	10	2,810
PURCHASED SERVICE	35,064	0	0	100	35,064
CHEMICALS AND TREATMENT	11,546	0	0	100	11,546
UTILITIES	71,527	50	35,763	50	35,763
REPAIRS AND MAINTENANCE	8,031	50	4,015	50	4,015
OFFICE EXPENSE	0	0	0	100	0
ACCOUNTING & LEGAL	4,284	100	4,284	0	0
INSURANCE	2,462	100	2,462	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	54,082	50	27,041	50	27,041
DEPRECIATION & AMORTIZATION	103,626	100	103,626	0	0
TAXES OTHER THAN INCOME	11,390	100	11,390	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	417,624		\$257,629		\$159,995
% OF TOTAL (FIXED + VARIABLE)		0.62		0.38	
FEDERAL INCOME TAXES	74,190		45,767		28,423
RETURN	158,989		98,079		60,910
LESS OTHER REVENUES	-2,532		-1,562		-970
TOTAL	\$648,270		\$399,913		\$248,357

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$7.02 /TH.GAL.

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W

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$45.22 /MO.

\$45.22 /MO. incl. min. gallons

REVENUE GENERATED SUMMARY:

Connection Size	# of Connections	Minimum Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	711	73.30	\$73.30	\$52,117	\$625,400
1"	4	183.25	183.25	733	8,796
1-1/2"		366.50	366.50	0	0
2"		586.40	586.40	0	0
3"	1	1172.81	1172.81	1,173	14,074
4"		1832.51	1832.51	0	0
6"		3665.03	3665.03	0	0
8"		5864.04	5864.04	0	0

TOTAL MINIMUM CHARGES=>

\$648,270

GALLONAGE CHARGES=>

0

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\$0.00 /1,000 GAL

0

TOTAL REVENUE GENERATED=>

\$648,270

STAFF'S PROPOSED RATE	
USE ->	\$0.00 <---- Should be 0 for Flat Rate
W	
YIELDS	\$73.30 /MO.
	73.30 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED:	\$648,270



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R UTILITY: Aqua Texas, Inc. (SE Sewer)

based on Exhibit: ED-KA-27-SE (Sewer)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$471,011	50	\$235,506	50	\$235,506
CONTRACT SERVICES	500,717	90	450,645	10	50,072
PURCHASED SERVICE	611,064	0	0	100	611,064
CHEMICALS AND TREATMENT	41,639	0	0	100	41,639
UTILITIES	521,412	0	0	100	521,412
REPAIRS AND MAINTENANCE	30,031	50	15,016	50	15,016
OFFICE EXPENSE	0	100	0	0	0
ACCOUNTING & LEGAL	39,687	100	39,687	0	0
INSURANCE	22,520	100	22,520	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	368,288	50	184,144	50	184,144
DEPRECIATION & AMORTIZATION	1,045,227	100	1,045,227	0	0
TAXES OTHER THAN INCOME	123,263	100	123,263	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	3,774,859		\$2,116,008		\$1,658,852
% OF TOTAL (FIXED + VARIABLE)		0.56		0.44	
FEDERAL INCOME TAXES	851,325		477,213		374,112
RETURN	1,652,572		926,354		726,218
LESS OTHER REVENUES	-24,446		-13,704		-10,743
TOTAL	\$6,254,310		\$3,505,870		\$2,748,440

RATE CALCULATION

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$4.94 /TH.GAL.

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MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$35.76 /MO.

\$35.76 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$0.00 <-- Should be 0 for Flat Rate
YIELDS \$63.80 /MO.	
63.80 /MO. incl. min. gallons	
ANNUAL REVENUE GENERATED: \$6,254,310	

REVENUE GENERATED SUMMARY:

Minimum Bill					
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year
5/8", 3/4"	8603	63.80	\$63.80	\$421,254	\$5,055,047
1"	225	159.49	159.49	35,886	430,632
1-1/2"	35	318.99	318.99	11,165	133,974
2"	88	510.38	510.38	44,913	538,960
3"	0	1020.76	1020.76	0	0
4"	5	1594.93	1594.93	7,975	95,696
6"		3189.87	3189.87	0	0
8"		5103.79	5103.79	0	0

TOTAL MINIMUM CHARGES=>

\$6,254,310

GALLONAGE CHARGES=>

0

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\$0.00 /1,000 GAL

0

TOTAL REVENUE GENERATED=>

\$6,254,310



TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

DOCKET # 34611-R UTILITY: Aqua Texas, Inc. (SW Sewer)

based on Exhibit: ED-KA-28-SW (Sewer)

REVENUE REQUIREMENT

COST OF SERVICE ITEM	Item Cost	%	Fixed	%	Variable
SALARIES	\$190,482	80	\$152,385	20	\$38,096
CONTRACT SERVICES	132,351	80	105,881	20	26,470
PURCHASED SERVICE	132,209	0	0	100	132,209
CHEMICALS AND TREATMENT	39,759	0	0	100	39,759
UTILITIES	127,036	0	0	100	127,036
REPAIRS AND MAINTENANCE	20,036	50	10,018	50	10,018
OFFICE EXPENSE	0	100	0	0	0
ACCOUNTING & LEGAL	26,853	100	26,853	0	0
INSURANCE	43,323	100	43,323	0	0
RATE CASE EXPENSE	0	100	0	0	0
MISCELLANEOUS	202,994	100	202,994	0	0
DEPRECIATION & AMORTIZATION	272,529	100	272,529	0	0
TAXES OTHER THAN INCOME	39,408	100	39,408	0	0
LEASE EXP. - PLANT	0				
SUB-TOTAL (LESS FIT & RETURN)	1,226,978		\$853,390		\$373,588
% OF TOTAL (FIXED + VARIABLE)		0.70		0.30	
FEDERAL INCOME TAXES	253,404		176,248		77,156
RETURN	491,902		342,129		149,773
LESS OTHER REVENUES	-6,182		-4,300		-1,882
TOTAL	\$1,966,102		\$1,367,467		\$598,635

RATE CALCULATION

Calculating a flat rate? y

GALLONAGE CHARGE

Variable Cost/Test Year Gallons/1,000 =====>

\$8.36 /TH.GAL.

MINIMUM BILL

Fixed Cost/12/Connection Equivalents =====>

\$61.18 /MO.

\$61.18 /MO. incl. min. gallons

STAFF'S PROPOSED RATE	
USE ->	\$0.00 /TH.GAL.
YIELDS -	\$87.97 /MO.
	87.97 /MO. incl. min. gallons
ANNUAL REVENUE GENERATED: \$1,966,102	

REVENUE GENERATED SUMMARY:

		Minimum Bill				
Connection Size	# of Connections	Min. Bill	Including Gals	Rev./Month	Rev./Year	
5/8", 3/4"	1722	87.97	\$87.97	\$151,482	\$1,817,787	
1"	15	219.92	219.92	3,299	39,586	
1-1/2"	6	439.84	439.84	2,639	31,669	
2"	6	703.75	703.75	4,223	50,670	
3"	0	1407.50	1407.50	0	0	
4"	1	2199.22	2199.22	2,199	26,391	
6"		4398.44	4398.44	0	0	
8"		7037.50	7037.50	0	0	
						0
		TOTAL MINIMUM CHARGES=>			\$1,966,102	
GALLONAGE CHARGES=>		71,648	@	\$0.00 /1,000 GAL	0	
TOTAL REVENUE GENERATED=>					\$1,966,102	

